



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

DRAFT

Date Amended:	07/21/03	Bill No:	AB 986
Tax:	Property Sales and Use Special Taxes Administration	Author:	J. Horton
Board Position:		Related Bills:	AB 1503 (Levine)

BILL SUMMARY

This bill would require the Legislative Analyst (LAO) to submit a report to the Legislature on the consolidation of the remittance processing and cashiering functions, and the mail processing operations, of the Board of Equalization (BOE), Franchise Tax Board (FTB), and the Employment Development Department (EDD), based on specified criteria.

Summary of Amendments

Since the previous analysis, this bill was amended to clarify that the BOE, FTB, and EDD would provide the information necessary for the LAO to complete its report. The report due date would also be changed from July 1 to November 1, 2004.

ANALYSIS

Current Law

Under existing law, the BOE, which consists of 5 voting members (4 members elected to represent the 4 districts throughout California, and the Controller) administers the sales and use tax, cigarette and tobacco products tax, alcoholic beverage tax, and various other taxes and fees. The BOE also sets values of property for state-assessees and monitors the property tax assessment practices of county assessors.

The FTB administers the state personal income taxes and corporations income taxes.

The EDD is responsible for the audit and collection of employment taxes and maintains employment records for more than 19 million California workers.

Proposed Law

This bill would add Section 38 to the Revenue and Taxation Code to require the LAO to submit a report to the Legislature regarding the possible consolidation of the remittance processing and cashiering functions, and the mail processing operations, of the FTB, BOE, and EDD.

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The bill would require the three agencies to provide all data and information that the LAO identifies as necessary for completing the report and also require the agencies to assist in the preparation of the report. The information provided would include, but not be limited to, an evaluation of the short- and long-term fiscal and budgetary advantages and disadvantages from the proposed consolidation of the specific functions. All information would be required to be submitted to the LAO by July 1, 2004.

The purpose of the report would be to determine, to the extent possible and based on available information and reasonable assumptions, if there are any benefits to the consolidation of the management and control of these operations, based on all of the following criteria:

- The elimination of duplicative functions and fragmented responsibilities.
- Increase operational efficiencies due to the use of improved technologies and economies of scale.
- Additional interest earnings for the state.

For purposes of this bill, “remittance processing and cashiering” would mean receiving, batching, balancing, and depositing remittances.

The LAO would provide its report and any recommendations and considerations with regard to the possible consolidation of the specified functions to the Legislature by November 1, 2004.

Background

Assembly Bill 3181 (Leonard) of 1986 would have required that beginning July 1, 1988, the cashiering operations of the BOE and EDD be done by the FTB. The bill also would have required that a task force, consisting of BOE, EDD, FTB, the Department of Finance, and the State Treasurer be established to prepare an implementation plan. If the task force determined that the proposed consolidation was not cost-effective, then the consolidation would not have taken place. AB 3181 did not pass out of the Senate Revenue and Taxation Committee. AB 3181 attempted to implement a suggestion from the Little Hoover Commission, which based its recommendation on a study conducted by the accounting firm Peat, Marwick, and Mitchell.

In General

The BOE collects 25 different taxes and fees, including sales and use tax that provides nearly forty (40) percent of the State’s revenue. As such, the BOE is dedicated to leadership in the field of tax administration, taxpayer services, and taxpayer information. Each year the BOE manually processes monthly, quarterly, fiscal yearly, and calendar yearly tax payments and return forms from approximately one million registered businesses. The BOE mails out return forms along with a return envelope to registered taxpayers for all the tax programs administered. Peak periods occur the month following each of the four calendar quarters. The second and fourth quarters produce

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the largest volume since these periods include monthly, quarterly and yearly (fiscal and calendar) filers. Monthly peak periods also occur due to the filing of prepayment forms by quarterly prepayment reporting basis taxpayers. These taxpayers are required to make two prepayments during the first two months of the quarter followed by a quarterly return and payment.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the author. Its purpose is to require a study of consolidating specified operations of the BOE, FTB, and EDD in the furtherance of good government and the elimination of wasteful or duplicative processes. The author intends an independent third party to study the efficiencies that could be achieved by combining resources of the three taxing agencies in order to provide elected officials with the data they need to make an informed decision about the issue of consolidation.
2. **July 21, 2003 amendments.** The amendments add the requirement that the three agencies provide the information requested by the LAO by July 1, 2004. The amendments also change the due date of the LAO's report to the Legislature from July 1 to November 1, 2004.
3. **July 15, 2003 amendments.** The amendments delete the phrase "under the State Board of Equalization" as one of the bases for the consolidation study. The amendments were accepted as author amendments at the July 9, 2003 Senate Revenue and Taxation Committee hearing in response to the committee analysis which questioned the need to restrict the study to the consolidation of cashiering, remittance and mail processing functions within the BOE.
4. **The bill would study the combination of processes that are common to all three taxing agencies.** The proposed study would require the LAO to look at the tasks leading up to the point at which the tax return information must be reviewed and verified by tax experts at each of the three different agencies. The return review process requires employees to apply laws, rules, and policies that are unique to each of the different taxing agencies. The consolidation approach contained in this bill looks for common grounds to achieve efficiencies on processes that are not unique to any of the agencies.

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5. The following are some of the issues that would need to be addressed in a study.

- Should the agencies combine facilities or run separate facilities?
- How would the processes work if some information is scanned at one agency while it is key entered in another?
- How would the different data centers communicate with each other when the BOE uses the Teale Data Center, EDD primarily uses the Health and Human Services Data Center, and FTB maintains its own data center?
- What are the underlying confidentiality issues with agencies sharing information?
- Which fund gets priority when a taxpayer sends insufficient payment for all three tax programs?
- Are there any issues with electronic fund transfer payments?

6. Related Legislation. Assembly Bill 1503 (Levine) contains legislative intent to conduct a study on the most economically feasible and effective method of collecting taxes and other revenues owed to the state. As of the date of this analysis, that bill has not been heard in any committee.

COST ESTIMATE

Enactment of this measure would not impact the BOE's administrative costs. The BOE would only be required to provide the LAO with information about its operations and procedures.

REVENUE ESTIMATE

This bill would not impact the state's revenues.

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